

Message Text

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PAGE 01 STATE 145683

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TO AMEMBASSY BRASILIA

C O N F I D E N T I A L STATE 145683

FOLLOWING REPEAT STATE 145683 ACTION LONDON 20 JUL 75

QUOTE

C O N F I D E N T I A L STATE 145683

E.O. 11652: GDS

TAGS: ETRD, EAGR

SUBJECT: U.S. POSITION FOR MEETING OF COFFEE COUNCIL

FOR U.S. DEL TO COFFEE COUNCIL

1. BACKGROUND: IN ACCORDANCE WITH ARTICLE 1 OF THE INTERNATIONAL COFFEE AGREEMENT OF 1968 AS EXTENDED IN 1973, MEMBERS HAVE CONTINUED NEGOTIATIONS, INITIATED IN 1972, FOR A NEW ICA. UNTIL RECENTLY DISCUSSIONS WERE DESULTORY AS THE PRODUCERS, ENJOYING HIGH WORLD MARKET PRICES, DISPLAYED LITTLE INTEREST IN EARLY CONCLUSION OF A NEW ICA. THIS ATTITUDE CHANGED WHEN PRICES BEGAN TO SLIDE AND IN SEPTEMBER 1974 THE COFFEE COUNCIL SET UP A NEW SPECIAL WORKING GROUP ON NEGOTIATION.

2. THE WORKING GROUP HAS MET IN LONDON FIVE TIMES SINCE JANUARY 1975. THESE MEETINGS HAVE BEEN REPORTED IN DETAIL

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 STATE 145683

BY EMBASSY LONDON. IN BRIEF, THE FIRST TWO MEETINGS WERE

DEVOTED TO EXAMINATION OF PROPOSALS SUBMITTED BY THE SMALLER PRODUCING AND CONSUMING NATIONS. IN MARCH, BRAZIL AND COLOMBIA PRESENTED A SERIOUS BUT, IN OUR VIEW, OVERLY RIGID AND UNWORKABLE PROPOSAL FOR A NEW ICA. AT THAT POINT WE DECIDED WE SHOULD COUNTER WITH SOME OF OUR OWN IDEAS OF WHAT COULD PROVE ACCEPTABLE IN A NEW ICA. ACCORDINGLY, THE

SUBSTANTIVE AGENCIES CONCERNED (STATE, COMMERCE, TREASURY AND USDA) WORKING WITH OUR INDUSTRY ADVISORS, DEVELOPED A PACKAGE OF HIGHLY FLEXIBLE COUNTER PROPOSALS AND SUGGESTIONS WHICH WERE PRESENTED AT THE FIFTH MEETING OF THE WORKING GROUP IN LATE APRIL.

3. THE U.S. PROPOSALS WERE WELL RECEIVED BY OTHER CONSUMER DELEGATIONS, MOST OF WHOM INDICATED THEY COULD SUPPORT THEM. PRODUCERS WELCOMED THE U.S. PROPOSALS AS A SIGN OF OUR SERIOUSNESS, BUT DEFERRED SUBSTANTIVE COMMENT UNTIL THEY HAD THE OPPORTUNITY TO STUDY THEM AND CONSULT THEIR GOVERNMENTS. IT IS PROBABLE THAT AT THE JUNE MEETING, PRODUCERS WILL ADOPT FORMAL POSITIONS ON THE VARIOUS ELEMENTS OF THE U.S. PROPOSAL AND MAY BE PREPARED FOR SERIOUS NEGOTIATIONS ON THE NATURE OF A NEW ICA WITH ECONOMIC PROVISIONS.

4. U.S. POSITIONS: THE U.S. DEL WILL REITERATE OUR INSTANCE THAT PROVISIONS IN A NEW ICA MUST BE TECHNICALLY FEASIBLE, FLEXIBLE AND NON-DISRUPTIVE TO THE MARKET AND ESTABLISHED TRADE PRACTICES. A MAJOR OBJECTIVE OF THE ICA SHOULD BE THE STABILIZATION OF COFFEE PRICES TO BENEFIT THE CONSUMERS IN PERIODS OF TIGHT SUPPLY AND PRODUCERS IN TIMES OF SUPPLY SURPLUS.

5. THE GENERAL PROVISIONS AND ARRANGEMENTS OF THE 1962 AND 1968 AGREEMENTS RELATING TO VOTING PROCEDURES, EXPORT QUOTAS, QUOTA ENFORCEMENT, ESTABLISHMENT OF ANNUAL QUOTAS, ETC. WORKED WELL AND SHOULD SERVE AS THE FOUNDATION OF A NEW ICA. HOWEVER, EARLIER ICAS LACKED PROVISIONS TO PROTECT CONSUMERS AND ASSURE ACCESS TO COFFEE IN PERIODS OF TIGHT SUPPLY. TO CORRECT THIS, THE DEL SHOULD SEEK THE FOLLOWING ADDITIONAL PROVISIONS WHICH WERE INCLUDED IN THE

CONFIDENTIAL

CONFIDENTIAL

PAGE 03 STATE 145683

U.S. PROPOSAL:

-- QUOTA PENALTIES FOR THOSE COUNTRIES WHICH, IN TIMES OF RISING PRICES, UNDERSHIP THEIR QUOTAS WITHOUT NOTIFYING THE ICO IN A TIMELY MANNER SO THAT THEIR SHORTFALLS CAN BE REDISTRIBUTED TO OTHER COUNTRIES WHO HAVE COFFEE AND ARE WILLING TO SHIP IT.

-- FLEXIBLE COUNTRY QUOTAS WHICH ARE RELATED BOTH TO PAST PERFORMANCE AND CURRENT STOCKS.

-- DEL SHOULD EXAMINE THE TECHNICAL FEASIBILITY OF THE SEVERAL PROPOSALS MADE FOR INCORPORATION OF A PORTION OF EXISTING NATIONAL STOCKS INTO AN QUOTE. INTERNATIONAL GUARANTEE STOCK UNQUOTE. UNDER INTERNATIONAL CONTROL. THE TECHNICAL ADVICE OF THE DELS' INDUSTRY ADVISORS SHOULD BE

SOUGHT AND TAKEN INTO ACCOUNT. IF SUCH AN AGREEMENT SHOULD APPEAR FEASIBLE, THE DEL SHOULD REPORT BACK TO WASHINGTON FOR GUIDANCE. UNDER NO CIRCUMSTANCES SHOULD THE DEL ACCEPT A MANDATORY OR EVEN MORAL OBLIGATION FOR CONSUMER GOVERNMENTS TO CONTRIBUTE DIRECTLY TO THE FINANCING OF SUCH A RESERVE.

-- DEL SHOULD SEEK PROVISION FOR AUTOMATIC SUSPENSION OF QUOTAS WHEN PRICES RISE ABOVE LEVELS DETERMINED BY THE COUNCIL.

6. THE DEL SHOULD SEEK, THROUGH BI-LATERAL CONSULTATIONS WITH BRAZIL, TO DEVELOP A NEW FORMULA FOR GOVERNING TRADE IN PROCESSED COFFEE WHICH, WHILE CONTINUING TO PROTECT THE LEGITIMATE INTERESTS OF U.S. MANUFACTURERS, AVOIDS THE CONFRONTATIONS OF THE PAST.

7. WHILE RECOGNIZING THE MANY TECHNICAL PROBLEMS INVOLVED, THE AGREEMENT SHOULD GRANT THE COUNCIL AUTHORITY TO ESTABLISH AN INDICATOR PRICE SYSTEM WHICH ACCURATELY REFLECTS THE MARKET VALUE OF THE PRINCIPAL TYPES OF COFFEE AND THE AUTHORITY TO IMPLEMENT A SELECTIVITY SYSTEM LESS SUBJECT TO LARGE PRODUCER COUNTRY MANIPULATION THAN IN THE PAST.

CONFIDENTIAL

CONFIDENTIAL

PAGE 04 STATE 145683

8. THE DEL SHOULD OPPOSE ANY EFFORTS TO WRITE SPECIFIC PRICES INTO THE AGREEMENT. A GENERAL REFERENCE TO PRICE LEVELS SUCH AS IN THE 1962 AND 1968 AGREEMENTS AND THE U.S. PROPOSALS WOULD BE ACCEPTABLE. THE DEL SHOULD ALSO OPPOSE ANY AUTOMATIC FORMULA FOR SETTING PRICE RANGES OR ATTEMPTING TO INDEX THEM.

9. IN THE EVENT NEGOTIATIONS SHOULD REACH THE POINT WHERE THERE APPEARS TO BE A GENERAL CONSENSUS ON THE FORM AND OUTLINE OF THE AGREEMENT ITSELF, THE DEL SHOULD MAKE CLEAR THAT ANY ACCEPTANCE OF SPECIFIC PROVISIONS IS TENTATIVE AND AD REFERENDUM. THE U.S. CAN NOT EVALUATE OR ACCEPT THE TERMS OF AN AGREEMENT UNTIL IT IS ACCOMPANIED BY OPERATIONAL RESOLUTIONS WHICH WILL PERMIT US TO JUDGE THE PACKAGE AS A WHOLE. KISSINGER

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